

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name		County
Fiscal Year End	Opinion Date		Date Audit Report Submitted to State	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☐ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☐ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☐ ☐ The local unit has adopted a budget for all required funds.
5. ☐ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☐ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☐ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☐ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☐ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☐ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☐ The local unit is free of repeated comments from previous years.
12. ☐ ☐ The audit opinion is UNQUALIFIED.
13. ☐ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☐ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☐ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input type="checkbox"/>			
The letter of Comments and Recommendations	<input type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name)		Telephone Number		
Street Address		City	State	Zip
Authorizing CPA Signature	Printed Name		License Number	

MULTI-LAKE SEWER AUTHORITY
TOWNSHIPS OF DEXTER, LYNDON, UNADILLA AND PUTNAM

REPORT ON AUDIT OF
FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2006

MULTI-LAKE SEWER AUTHORITY

WATER & SEWER AUTHORITY BOARD

Deb Alvarez	Trustee
Michael Gross	Trustee
Joe Mahler	Trustee
Dick McCloskey	Trustee
Maryann Noah	Chairperson
Steven Piatt	Secretary
David Steinbach	Vice-Chairperson
Jack West	Treasurer

WATER AND SEWER AUTHORITY ATTORNEY

Keusch & Flintoft

WATER AND SEWER AUTHORITY AUDITORS

Pfeffer, Hanniford & Palka
Certified Public Accountants

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PFEFFER • HANNIFORD • PALKA
Certified Public Accountants

John M. Pfeffer, C.P.A.
Patrick M. Hanniford, C.P.A.
Kenneth J. Palka, C.P.A.

Members:
AICPA Private Practice Companies Section
MACPA

225 E. Grand River - Suite 104
Brighton, Michigan 48116-1575
(810) 229-5550
FAX (810) 229-5578

December 18, 2006

Multi-Lake Sewer Authority
12088 N. Territorial Road
Dexter, Michigan 48130

INDEPENDENT AUDITORS' REPORT

Honorable Authority Members:

We have audited the accompanying financial statements of the Multi-Lake Sewer Authority as of and for the year ended March 31, 2006. These financial statements are the responsibility of the Authority Board. Our responsibility is to express an opinion on these financial statements based on the audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the authority, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Multi-Lakes Sewer Authority, as of March 31, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 12, the Authority has implemented a new financial reporting model as required by the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis-for State and Local Governments*, as of March 31, 2006.

The Management's Discussion and Analysis on pages 6 through 9 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Multi-Lakes Sewer Authority's basic financial statements. The supplementary information presented for purposes of additional analysis is not a required part of the basic financial statements. The supplementary information has not been subjected to the auditing procedures applied in the audit of the financial statements and accordingly, we express no opinion on them.

Pfeffer, Hanniford & Palka, P.C.

PFEFFER, HANNIFORD & PALKA
Certified Public Accountants

MANAGEMENT
DISCUSSION AND
ANALYSIS

Management Discussion and Analysis

March 31, 2006

Within this section of the Multi-Lake Sewer Authority's financial report, the Authority's management is providing a narrative discussion and analysis of the financial activities of the Authority for the fiscal year ended March 31, 2006. This narrative discusses and analyzes the activity within the context of the accompanying financial statements and disclosures following this section. The discussion focuses on the Authority's primary government and, unless otherwise noted, component units reported separately from the primary government are not included.

Overview of the Financial Statements

Management's Discussion and Analysis introduces the Authority's financial statements. The financial statements include all the statements required by the Governmental Accounting Standards Board and the notes to the financial statements. The Authority also includes in this report additional information to supplement the basic financial statements.

Government-wide Financial Statements

The Authority's annual reports include two Authority-wide financial statements. These statements provide both long-term and short-term information about the Authority's overall status. Financial reporting at this level uses a perspective similar to that found in the private sector with its basis in full accrual accounting and elimination or reclassification of internal activities.

The first of these statements is the Statement of Net Assets. This is the Authority-wide statement of position presenting information that includes all the Authority's assets and liabilities, with the difference reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Authority as a whole is improving or deteriorating. Evaluation of the overall health of the Authority may extend to various non-financial factors as well.

The second government-wide statement is the Statement of Revenues, Expenses and Changes in Net Assets which reports how the Authority's net assets changed during the current fiscal year. The design of this statement is to show the financial reliance of the Authority's distinct activities or functions on the revenues generated by the Authority.

The Authority's financial reporting includes all the funds of the Authority (primary government) and, additionally, organizations for which the Authority is accountable (component units). Since the Authority's sole purpose is to operate and manage a water and sewer system, only one fund is maintained. Thus, there are no fund financial statements prepared by the Authority.

Notes to the financial statements

The accompanying notes to the financial statements provide information essential to a full understanding of the financial statements.

Financial Analysis of the Authority as a Whole

The Authority's net assets at the end of the fiscal year were \$19,024,869. This is a \$164,250 decrease from last year's net assets of \$19,189,119.

The following tables provide a summary of the Authority's financial activities and changes in net assets:

Summary of Net Assets

	<u>3/31/2005</u>	<u>3/31/2006</u>
Current and other assets	\$ 1,673,162	\$ 1,608,526
Capital assets, net	<u>17,562,911</u>	<u>17,471,236</u>
Total assets	<u>19,236,073</u>	<u>19,079,762</u>
Accounts payable	37,381	45,320
Deposits	<u>9,573</u>	<u>9,573</u>
Total liabilities	<u>46,954</u>	<u>54,893</u>
Net assets:		
Invested in capital assets, net of related debt	17,562,911	17,471,236
Unrestricted	<u>1,626,208</u>	<u>1,553,633</u>
Total net assets	<u>\$ 19,189,119</u>	<u>\$ 19,024,869</u>

Summary of Changes in Net Assets

	<u>3/31/2005</u>	<u>3/31/2006</u>
Operating revenues	\$ 993,538	\$ 768,705
Operating expenses		
General	147,783	191,846
Sewer	<u>913,527</u>	<u>929,729</u>
Total operating expenses	<u>1,061,310</u>	<u>1,121,575</u>
Operating (loss)	(67,772)	(352,870)
Non-operating revenues, net	<u>22,747</u>	<u>4,402</u>
Net Income before capital contributions	(45,025)	(348,468)
Capital contributions	<u> </u>	<u>184,218</u>
Net (loss)	(45,025)	(164,250)
Beginning net assets	<u>19,234,144</u>	<u>19,189,119</u>
Ending net assets	<u>\$ 19,189,119</u>	<u>\$ 19,024,869</u>

Capital and Debt Administration

As of March 31, 2006, the Authority does not have any outstanding long-term debt in the form of bonds or loans payable.

The engineers for Multi-Lakes have completed the design for the Authority's wastewater treatment plant upgrade. Under the plan, the two existing Sequencing Batch Reactors will be decommissioned and the basins used for much needed digester and sludge storage tanks. New treatment will be provided by two oxidation ditches with a final clarifier. Improvements are planned for the distribution of the highly processed effluent to the existing infiltration basins in compliance with the Authority's groundwater discharge permit from the Department of Environmental Quality (DEQ). The Authority has submitted a plan to the state for low interest State Revolving Fund money for the project. The Washtenaw County Board of Public Works is assisting and has endorsed the Authority's plan for the upgraded treatment facility.

The Authority spent \$61,195 in equipment and improvements and \$253,386 with the expansion.

Economic Factors and Next Year's Goals

The Authority's financial outlook continues to remain strong. The population in the service area is expected to remain constant to slowly rising, with several new users expected to be added during the fiscal year. The Authority has a strong cash position and is unencumbered by debt.

It is expected that the increase in revenue experienced in the fiscal year March 31, 2006 will continue in future years. An additional system expansion is underway that will bring additional users into the system.

The Authority faces challenges in the future, as well. Rising energy and fuel costs pose challenges to both the authority and its customers. During this fiscal year, the Authority's electrical and heating costs increased by nearly 20% from the prior year. If such trends continue, these costs may be passed on to customers, who are also enduring higher energy costs.

Contacting the Authority's Financial Management

This report is designed to provide a general overview of the Authority's financial position and comply with finance-related regulations. If you have further questions about this report or request additional information, please contact the Authority at 12088 North Territorial Road, Dexter, Michigan 48130.

BASIC
FINANCIAL
STATEMENTS

MULTI-LAKE SEWER AUTHORITY
STATEMENT OF NET ASSETS
MARCH 31, 2006

ASSETS

CURRENT ASSETS

Cash - operations	\$ 245,956
Accounts receivable - sewer	283,325
Accounts receivable - other	3,689
Prepaid expenses	26,068
Inventory	<u>53,070</u>

Total current assets \$ 612,108

RESTRICTED ASSETS

Cash - construction	319,160
Cash - capital replacement	666,038
Cash - agency	<u>11,220</u>

Total restricted assets 996,418

PROPERTY, PLANT AND EQUIPMENT

Land	123,000
Leasehold improvement	49,245
Sewer system	19,414,737
Equipment	<u>127,408</u>
	19,714,390
Less accumulated depreciation	<u>2,496,540</u>

Net property, plant and equipment 17,217,850

CONSTRUCTION IN PROGRESS

253,386

Total assets \$ 19,079,762

LIABILITIES

CURRENT LIABILITIES

Accounts payable	\$ 19,280
Due to member townships	26,040
Due to others - escrow	<u>9,573</u>

Total current liabilities \$ 54,893

NET ASSETS

Investment in capital assets, net of related debt	17,471,236
Unreserved - sewer	<u>1,553,633</u>

Total net assets \$ 19,024,869

The accompanying notes are an integral part of these financial statements

MULTI-LAKE WATER AND SEWER AUTHORITY
STATEMENT OF REVENUES AND EXPENSES
FOR THE YEAR ENDED MARCH 31, 2006

OPERATING REVENUES		
Billings	\$ 718,089	
Grinder pump sales	<u>50,616</u>	
Total operating revenues		\$ 768,705
OPERATING AND ADMINISTRATIVE EXPENSES		<u>1,121,575</u>
Operating (loss)		(352,870)
NON-OPERATING REVENUES AND EXPENSES		
Interest income	44,398	
Member debt transfers	(102,291)	
Miscellaneous income	52,695	
Rental income	<u>9,600</u>	
Total non-operating revenues		<u>4,402</u>
Net (loss) before capital contributions		(348,468)
CAPITAL CONTRIBUTIONS		
Tap-in		<u>184,218</u>
Net (loss)		(164,250)
RETAINED EARNINGS, APRIL 1, 2005		<u>19,189,119</u>
RETAINED EARNINGS, MARCH 31, 2006		<u>\$ 19,024,869</u>

The accompanying notes are an integral part of these financial statements

MULTI-LAKE WATER AND SEWER AUTHORITY
STATEMENT OF OPERATING AND ADMINISTRATIVE EXPENSES
FOR THE YEAR ENDED MARCH 31, 2006

OPERATING EXPENSES

Contracted services	\$ 47,772
Operator salary and wages	114,490
Retirement	3,669
Insurance - health	8,935
Unemployment insurance	8,145
Supplies	53,423
Repairs and maintenance - grounds and building	61,367
Utilities	81,848
Grinder pumps	46,695
Alarm services	360
Depreciation	405,555
Engineering fees	10,656
Telephone	7,431
Billing charges	1,837
Mileage and reimbursements	1,546
Tap-in fees	<u>76,000</u>

Total operating expenses	<u>929,729</u>
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ADMINISTRATIVE EXPENSES

Bank charges	7,187
Insurance - general	40,392
Depreciation	700
Office expenses	6,164
Miscellaneous	9,888
Printing and postage	1,068
Authority per-diem fees	6,200
Payroll services fees	2,024
Accounting and audit fees	7,510
Legal fees	3,330
Permits	18,374
Miss-Dig and inspection fees	3,050
Salaries and wages	63,196
Retirement	4,838
Health insurance	4,523
Payroll taxes	<u>13,402</u>

Total administrative expenses	<u>191,846</u>
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Total operating and administrative expenses	<u>\$ 1,121,575</u>
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MULTI-LAKE WATER AND SEWER AUTHORITY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED MARCH 31, 2006

CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES

Receipts from customers	\$ 952,923
Payments to vendors	(911,230)
Payments to employees	<u>(63,196)</u>

Net cash from (used in) operating activities \$ (21,503)

CASH FLOWS FROM (USED-IN) CAPITAL AND RELATED FINANCING ACTIVITIES

Transfer to member townships	(102,291)
Acquisition and construction of capital assets	(314,580)
Tap in fees received	<u>184,218</u>

Net cash (used in) capital and related financing activities (232,653)

CASH FLOWS FROM INVESTING ACTIVITIES

Interest	44,398
Rental income	9,600
Other income	<u>52,695</u>

Net cash from investing activities 106,693

Net decrease in cash and cash equivalents (147,463)

CASH AND CASH EQUIVALENTS AT APRIL 1, 2005 1,389,837

CASH AND CASH EQUIVALENTS AT MARCH 31, 2006 \$ 1,242,374

RECONCILIATION OF OPERATING (LOSS)

TO NET CASH PROVIDED (USED IN) OPERATING ACTIVITIES

Operating (loss)	\$ (352,870)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities	
Depreciation expense	406,255
Changes in assets and liabilities	
Receivables, net	(36,793)
Prepaid expenses	(46,035)
Accounts and other payables	<u>7,940</u>

Net cash provided by operating activities \$ (21,503)

The accompanying notes are an integral part of these financial statements

NOTES
TO
FINANCIAL
STATEMENTS

MULTI-LAKE SEWER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2006

NOTE 1 - DESCRIPTION OF THE REPORTING ENTITY

The Multi-Lake Sewer Authority was incorporated on October 4, 1994, under Act No. 233, Public Acts of Michigan, 1955 as amended. The two incorporating municipal entities are Dexter and Lyndon Townships. The Townships of Putnam and Unadilla joined the Authority at a subsequent date.

The purpose of the Authority is to acquire, own, improve, enlarge, extend, operate, maintain, manage and administer sewage disposal systems, water supply systems, or both.

The Authority Board is composed of four voting representatives from Dexter Township, two voting representatives from Lyndon Township, one voting member from Unadilla Township, and one voting member from Putnam Township. Each representative serves a term of four years. The two Townships also appoint an alternate representative or representatives who attend meetings in the absence of the representative appointed by the alternate's respective Township.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. BASIS OF PRESENTATION

The Authority is considered an enterprise fund. Enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The board has elected also to follow private sector standards issued after November 30, 1989 for its business-type activities.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary funds relate to charges to customers for sales and services. The water and sewer fund also recognizes the portion of tap fees intended to recover current costs (e.g., labor and materials to hook up new customers) as operating revenue. The portion intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

MULTI-LAKE SEWER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2006

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. BASIS OF ACCOUNTING - Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

All proprietary funds are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

C. MANAGEMENT'S ESTIMATES - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues during the reporting period. Actual results could differ from those estimates.

NOTE 3 - DEPOSITS WITH FINANCIAL INSTITUTIONS

Michigan Compiled Laws, Section 129.91, authorizes the Authority to deposit and invest in the accounts of Federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or Federal agency obligation repurchase agreements; bankers' acceptance of United States banks; commercial paper rated by two standard rating agencies within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan

The investment policy adopted by the Authority is in accordance with Act 196 PA 1997. The Township's deposits and investments are in accordance with statutory authority.

The Governmental Accounting Standards Board Statement No. 3 risk disclosures for the Authority's deposits are as follows:

<u>Deposits</u>	<u>Carrying Amount</u>	<u>Bank Balance</u>
Insured (FDIC)	\$ 100,000	\$ 100,000
Uninsured and uncollateralized	<u>1,142,374</u>	<u>1,160,210</u>
Total deposits	<u>\$ 1,242,374</u>	<u>\$ 1,260,210</u>

MULTI-LAKE SEWER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2006

NOTE 4 - PROPERTY, PLANT AND EQUIPMENT

A summary of changes in fixed assets and depreciation is as follows:

	<u>Balance 4/1/05</u>	<u>Additions</u>	<u>Balance 3/31/06</u>
Sewer system	\$ 19,414,737	\$	\$ 19,414,737
Equipment	103,590	23,818	127,408
Land	123,000		123,000
Land improvements	<u>11,869</u>	<u>37,376</u>	<u>49,245</u>
Total cost	19,653,196	61,194	19,714,390
Less accumulated depreciation	<u>2,090,285</u>	<u>406,255</u>	<u>2,496,540</u>
Net fixed assets	<u>\$ 17,562,911</u>	<u>\$ (345,061)</u>	<u>\$ 17,217,850</u>

Construction in Progress \$ 253,386

Depreciation for the sewer system, equipment, improvements and software paid by operating income is charged as an expense against their operations.

Accumulated depreciation is reported on the proprietary fund balance sheet. Depreciation has been provided over the estimated useful lives using the straight-line method. The estimated useful lives are as follows:

Sewer System	50 years
Equipment, Furniture and Software	5 - 10 years

MULTI-LAKE SEWER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2006

NOTE 5 - STATEMENT OF CASH FLOWS

Pursuant to Governmental Accounting Standards Board (GASB) statement number 9, a statement of cash flows is presented. The purpose of the statement of cash flows is to explain the change in cash and cash equivalents during the year.

Cash equivalents are defined as short-term, highly liquid investments with original maturities of three months or less. The direct method was utilized to present cash flows from operations. The following is a summary of beginning and ending cash and cash equivalents:

	Beginning Balance <u>April 1, 2005</u>	Ending Balance <u>March 31, 2006</u>
Current Assets		
Cash and cash equivalents	\$ 255,698	\$ 245,956
Restricted Assets		
Cash and cash equivalents	<u>1,134,139</u>	<u>996,418</u>
	<u>\$ 1,389,837</u>	<u>\$ 1,242,374</u>

NOTE 6 - LEASE AGREEMENTS

The Authority has two lease agreements with each of the following entities, Chelsea Fire Department and Dexter Fire Department. The lease agreements call for monthly rents of \$400 for Chelsea and Dexter Fire Departments each and their pro-rata share of all heat, water, gas, oil and other utilities. The lease agreements for the Chelsea Fire Department and Dexter Fire Department was for a period of two years.

NOTE 7 - SEWER BILLINGS

The system currently has 1,430 users. Sewer users, with the exception of those in Gregory, are billed \$129.33 per quarter for service.

The quarterly charges are composed of the following:

Operation and maintenance	\$ 87.33
Reserve for debt service	21.00
Reserve for equipment replacement	<u>21.00</u>
Total	<u>\$ 129.33</u>

Users in Gregory are billed quarterly as follows:

Operation and maintenance	\$ 87.33
Reserve for equipment replacement	<u>6.00</u>
	<u>\$ 93.33</u>

MULTI-LAKE SEWER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2006

NOTE 8 - SYSTEM EXPANSION - PROJECT UNCERTAINTIES

The County entered into a lease agreement dated October 1, 1994, with the Townships of Dexter and Lyndon, located in Washtenaw County (the "Townships"). The lease agreement totaled \$8,900,000, which represented the amount of bonds sold by the County to finance the Multi-Lake Sanitary Sewer System Project (the "System"). The Townships pay semi-annually to the County amounts sufficient to cover the debt service requirements, including agent fees and other related costs.

The Multi-Lake Sewer Authority (the "Authority"), through a sublease with the Townships (who lease the project for the county), is required to operate, maintain, repair, insure and manage the system. Ownership of the system will be transferred to the Authority at no cost after the bonds have been paid in full.

The original lease agreement entered into between the County, the Authority and the Townships for the construction of the system and financing thereof indicated that Dexter Township would levy special assessments totaling approximately \$7.6 million. However, upon preparations and confirmation of its special assessments roll, Dexter Township actually levied approximately \$5.3 million. While a variety of factors appear to have contributed to this difference, there is concern by all parties to the contract as to Dexter Township's ability to satisfy its future lease payment obligations.

Presently, management of the Washtenaw County Department of Public Works believes that remedies that are available to the County in the event Dexter Township is unable to satisfy its lease obligations are sufficient to provide the necessary funding to meet the County's debt service requirements for the bonds issued to finance this project. Accordingly, no fund liability has been recorded by the County for any contingencies relative to this matter.

The Authority and County currently have contracted with new customers outside the sewer service area to provide service.

NOTE 9 - RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The Authority maintains commercial insurance coverage covering each of those risks of loss. Management believes such coverage is sufficient to preclude any significant uninsured losses to the township. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

MULTI-LAKE SEWER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2006

NOTE 10 - ACCOUNTS RECEIVABLE

The Authority's billing periods are as follows:

April	through	June
July	through	September
October	through	December
January	through	March

Thus, accounts receivable includes both billed receivables through December 2005 and an estimate of the January through March 2006 billings. The following is a schedule of the Authority's accounts receivable:

Each year accounts receivable over 90 days are placed on the tax roll of the applicable township.

<u>Estimated Unbilled</u>	<u>Current</u>	<u>Over 30 Days</u>	<u>Over 90 Days</u>	<u>Total</u>
<u>\$ 180,105</u>	<u>\$ 0</u>	<u>\$ 71,866</u>	<u>\$ 31,354</u>	<u>\$ 283,325</u>

NOTE 11 - INVENTORIES

Inventories of the water and sewer fund are valued at the lower cost or market. Cost is determined on the first in, first out basis. A physical inventory was taken at March 31, 2006. The authority's only inventory at March 31, 2006 was 6 grinder pumps.

MULTI - LAKES SEWER AUTHORITY

COMMUNICATION OF REPORTABLE
CONDITIONS TO MANAGEMENT
-IDENTIFICATION OF MATERIAL WEAKNESS

FOR THE YEAR ENDED MARCH 31, 2006



PFEFFER ■ HANNIFORD ■ PALKA
Certified Public Accountants

John M. Pfeffer, C.P.A.
Patrick M. Hanniford, C.P.A.
Kenneth J. Palka, C.P.A.

Members:
AICPA Private Practice Companies Section
MACPA

225 E. Grand River - Suite 104
Brighton, Michigan 48116-1575
(810) 229-5550
FAX (810) 229-5578

December 18, 2006

Multi-Lakes Sewer Authority
12088 N. Territorial Road
Dexter, Michigan 48130

In planning and performing our audit of the financial statements of Multi-Lakes Sewer Authority for the year ended March 31, 2006, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control. However, we noted certain matters involving internal control and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect the Multi-Lakes Sewer Authority's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that errors or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of internal control would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, the following reportable conditions that we believe to be material weaknesses are:

- Lack of segregation of duties.

This report is intended solely for the information and use of the Board, management, and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

Pfeffer, Hanniford & Palka, P.C.

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Certified Public Accountants